

# CONTROLLER STEVE WESTLY

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## **Westly Outlines Proxy Voting Options**

*Recommends Ways to Enhance Effectiveness of CalPERS Policies*

SACRAMENTO – State Controller and CalPERS Board Member Steve Westly today sent a letter to fellow board members that recommends ways to improve proxy voting practices and increase auditor independence at the companies CalPERS invests in.

During this proxy season, CalPERS expects to withhold 90 percent of its votes for corporate audit committee members based on conflicts caused by auditors doing non-audit work. Westly has expressed concern that the policies in place for the last two years may not be achieving their central aim of improving auditor independence.

“Auditor independence and sound governance are our best defense against the worst corporate scandals – Enron, WorldCom – which start with executives cooking the books,” Westly said.

Earlier this month, Westly called on CalPERS to produce a report that analyzes the effectiveness of its proxy voting practices. The report is in progress.

Today’s follow-up letter suggests options for increasing auditor independence: establish a separate corporate governance auditor watch list, publish a supplemental auditor fee list, and consider setting a fee threshold for non-audit services before withholding votes.

Text of the letter follows.

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**STEVE WESTLY**  
**California State Controller**

May 20, 2004

Sean Harrigan, Board President and  
Members, CalPERS Board of Administration  
400 P Street  
Sacramento, California 95814

Dear President Harrigan and Members:

CalPERS staff is in the process of preparing a report on our voting related to auditor independence in the 2003 and 2004 proxy season. In anticipation of this report and subsequent Board discussion, I would like to share a few elements of a proposal for your consideration.

My primary objective is to increase the number of companies that implement real reforms to their audit policies. Achieving this requires an audit independence strategy that is focused, leverages existing resources within CalPERS, and results in measurable governance changes.

**Establish a Corporate Governance Auditor Watch List:** Placement on the list could be based on companies where (1) CalPERS has a significant investment and (2) auditor fees for non-audit functions exceed a certain percentage.

Companies selected for the CalPERS Focus List are evaluated currently against three screens: stock performance, economic value and corporate governance. The corporate governance screen includes 26 different elements, including independence of the auditor. This suggested approach focuses specifically on auditor independence and could utilize existing research performed for the Focus List.

**Publish Supplemental Auditor Fee List:** Host on the CalPERS website a list of public equities which pay substantial fees to the external auditor for non-audit functions. This approach leverages existing research and allows the broader investment community to make more informed decisions on an individual company's governance practices.

**Revise the Proxy Voting Policy for Auditor Fees:** Withhold CalPERS votes for Audit Committee members who approve a certain percentage of fees to external auditors for non-audit functions. This approach would allow CalPERS staff to focus on companies where there may be substantial concerns over lack of auditor independence.

We all share a commitment to corporate governance and the importance of an audit that has integrity. I believe these ideas will shift us toward a more results oriented approach and ask that you share your comments with Toni Symonds in my office.

I look forward to working with you on these issues.

Sincerely,

STEVE WESTLY  
California State Controller

cc: Fred Buenrostro, Chief Executive Officer  
Mark Anson, Chief Investment Officer  
Christine Wood  
Ted White

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